

- d. The facility claims the cost of the education at a rate which does not exceed one dollar per hour of work performed by the employee in the position for which the employee received education at the facility's expense, provided that the amount claimed per employee may not exceed two thousand dollars per year, or an aggregate of eight thousand dollars, and in any event may not exceed the cost to the facility of the employee's education.
- 37. Vacated
 - 38. Employment benefits associated with salary costs not includable in a rate set under this plan.
 - 39. Increased lease costs of a provider unless:
 - a. The lessor incurs increased costs related to the ownership of the facility or a resident-related asset;
 - b. The increased costs related to the ownership are charged to the lessee; and
 - c. The increased costs related to the ownership would be allowable had the costs been incurred directly by the lessee;
 - 40. The direct and indirect costs of providing therapy services to nonresidents or Medicare Part B therapy services, including purchase costs related to providing therapy services if the provider does not want therapy income offset under Section 13.1.k.
 - 41. Costs associated with or paid for the acquisition of licensed nursing facility capacity;
 - 42. Goodwill; and
 - 43. Lease costs in excess of the amount allocable to the leased space as reported on the medicare cost report by a lessor who provides services to recipients of benefits under title XVIII or title XIX of the Social Security Act.

Section 13 - Offsets to Costs

1. Several items of income will be considered as offsets against various costs as recorded in the books of the facility. Any income, whether in cash or in any other form, which is received by the facility, with the exception of the established rate, income from payments made under the Job Training Partnership Act, and income from charges for private rooms or special services will be offset up to the total of the appropriate actual allowable costs. If actual costs are not identifiable, income will be offset up to the total of costs as identified below. If costs relating to income are reported in more than one cost category, the income must be offset in the ratio of the costs in each of the cost categories. These sources of income include, but are not limited to:
 - a. "Activities income". Income from the activities department and the gift shop will be offset to activity costs.
 - b. "Vending income". Income from the sale of beverages, candy, or other items will be offset to the cost of the vending items or, if the cost is not identified, all vending income will be offset to the cost category where vending costs are recorded.
 - c. "Dietary income". Amounts received from or on behalf of employees, guests, or other nonresidents for meals or snacks will be offset to dietary and food costs.
 - d. "Drugs or supplies income". Amounts received from employees, doctors, or others not admitted as residents will be offset to nursing supplies. Medicare Part B income for drugs and supplies must be offset to nursing supplies.
 - e. "Insurance recoveries income". Any amount received from insurance for a loss incurred will be offset against the appropriate cost category regardless of when the cost was incurred if the facility did not adjust the basis for depreciable assets.
 - f. "Interest or investment income". Interest received on investments, except amounts earned on funded depreciation or from earnings on gifts where the identity remains intact, will be offset to interest expense.
 - g. "Laundry income". All amounts received for services rendered to or on behalf of employees, doctors, or others will be offset to laundry costs.
 - h. "Private duty nurse income". Income received for the providing of a private duty nurse will be offset to nursing salaries.

- i. "Rentals of facility space income". Revenues received from outside sources for the use of facility space and equipment will be offset to property costs.
 - j. "Telegraph and telephone income". Revenues received from residents, guests, or employees will be offset to administration costs. Income from emergency answering services need not be offset.
 - k. "Therapy income". Except for income from Medicare Part A, income from therapy services, including Medicare Part B income, must be offset to therapy costs unless the provider chooses to make therapy costs nonallowable under subsection 40 of section 12.
 - l. "Bad Debt Recovery". Income for bad debts which have been previously claimed must be offset to administration costs in total in the year of recovery.
 - m. "Other cost-related income". Miscellaneous income, including amounts generated through the sale of a previously expensed item, e.g., supplies or equipment, must be offset to the cost category where the item was expensed.
2. Purchase discounts, allowances, refunds, and rebates are reductions of the cost of whatever was purchased.
3. Payments to a provider by its vendor will ordinarily be treated as purchase discounts, allowances, refunds, or rebates in determining allowable costs even though these payments may be treated as "contributions" or "unrestricted grants" by the provider and the vendor. However, such payments may represent a true donation or grant. Examples include, but are not limited to, when: (1) they are made by a vendor in response to building or other fund raising campaigns in which communitywide contributions are solicited; (2) the volume or value of purchases is so nominal that no relationship to the contribution can be inferred. The provider must provide verification, satisfactory to the department, to support a claim that a payment represents a true donation.
4. Where an owner or other official of a provider directly receives from a vendor monetary payments or goods or services for the owner's or official's own personal use as a result of the provider's purchases from the vendor, the value of such payments, goods, or services constitutes a type of refund or rebate and must be applied as a reduction of the provider's costs for goods or services purchased from the vendor.

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5. Where the purchasing function for a provider is performed by a central unit or organization, all discounts, allowances, refunds, and rebates must be credited to costs of the provider and cannot be treated as income by the central unit or organization or used to reduce the administrative costs of the central unit or organization.
6. For purposes of this section, "medicare part B income" means the interim payment made by medicare during the report year plus any cost settlement payments made to the provider or due from the provider for previous periods which are made during the report year and which have not been reported to the department prior to June 30, 1997.

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Section 14 - Home Office Costs

1. Home offices of chain organizations vary greatly in size, number of locations, staff, mode of operations, and services furnished to their member facilities. Although the home office of a chain is normally not a provider in itself, it may furnish central administration or other services such as centralized accounting, purchasing, personnel, or management services. To the extent that the home office furnishes services related to resident care to a facility, the reasonable resident related costs, not to exceed actual costs of such services, are includable in the facility's cost report and are includable as part of the facility's rate.
2. Home office costs that are not otherwise allowable when incurred directly by the facility cannot be allowable as home office costs which are allocated to facilities.
3. Where the home office makes a loan to or borrows money from one of the components of a chain organization, the interest paid is not an allowable cost and interest income is not used to offset interest expense.
4. Home office costs incurred for expansion of a chain organization must be directly allocated to the appropriate component of the chain. The costs of abandoned plans are not allowable.
5. Central or home office costs representing services of consultants required by law in areas for social services, nursing, therapies or activities and central, affiliated, or corporate office costs representing services of consultants not required by law in the areas of nursing or therapies may be allocated to the appropriate cost category of a facility according to subsections a through e.
 - a. Only the salaries, fringe benefits, and payroll taxes associated with the individual performing the service may be allocated. No other costs may be allocated.
 - b. The allocation must be based on direct identification and only to the extent justified in time distribution records that show the actual time spent by the consultant performing the services in the facility.
 - c. The cost in subsection a for each consultant must not be allocated to more than one cost category in the facility. If more than one facility is served by a consultant, all facilities shall allocate the consultant's cost to the same operating category.
 - d. Top management personnel must not be considered consultants.
 - e. The consultant's full-time responsibilities are to provide the services identified in this section.

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Section 15 - Related Organizations

1. Costs applicable to services, facilities, and supplies furnished to a provider by a related organization may not exceed the lower of the cost to the related organization or the price of comparable services, facilities, or supplies purchased elsewhere primarily in the local market. Providers shall identify such related organizations and costs in the cost report.
2. A provider may lease a facility from a related organization within the meaning of ratesetting principles. In such case, the rent paid to the lessor by the provider is not allowable as cost unless the rent paid is less than the allowable costs of ownership. If rent paid exceeds the allowable costs of ownership, the provider may include the allowable costs of ownership of the facility. These costs are property insurance, depreciation as provided for in Section 18 - Depreciation, interest on the mortgage as provided for in Section 19 - Interest Expense and real estate taxes as provided for in Section 20 - Taxes. Other operating expenses of the related organization are not includable by the provider as an allowable cost of ownership.

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Section 16 - Compensation

1. Compensation for top management personnel will be limited, prior to allocation, if any, to the highest market-driven compensation of an administrator employed by a freestanding facility with licensed capacity during the report year at least equal to the licensed capacity of the smallest facility within the top quartile of all facilities ranked by licensed capacity.
2. Compensation includes, but is not limited to:
 - a. Salary for managerial, administrative, professional, and other services.
 - b. Amounts paid by the provider for the personal benefit of the person, e.g., housing allowance, flat-rate automobile allowance.
 - c. The cost of assets and services which the person receives from the provider.
 - d. Deferred compensation, pensions, and annuities.
 - e. Supplies and services provided for the personal use of the person.
 - f. The cost of a domestic or other employee who works in the home of the person.
 - g. Life and health insurance premiums paid for the person and medical services furnished at nursing facility expense.
3. Reasonable compensation for a person with at least 5% ownership, persons on the governing board, or any person related within the third degree of kinship to top management personnel shall be considered an allowable cost if services are actually performed and required to be performed. The amount to be allowed shall be an amount determined by the department to be equal to the amount normally required to be paid for the same services if provided by a nonrelated employee. Reasonableness also requires that functions performed be necessary in that, had the services not been rendered, the facility would have to employ another person to perform them. Reasonable compensation on an hourly basis may not exceed the amount to be determined to be the limitation in paragraph 1 of this section divided by two thousand eighty.
4. Costs otherwise nonallowable under this chapter may not be included as personal compensation.

Section 17 - Bad Debts

1. Bad debts for charges incurred on or after January 1, 1990, and fees paid for the collection of those bad debts are allowable provided that:
 - a. The bad debt results from nonpayment of the payment rate or part of the payment rate.
 - b. The facility documents that reasonable collection efforts have been made, the debt was uncollectible, and there is no likelihood of future recovery. Reasonable collection efforts include pursuing all avenues of collection available to the facility including liens and judgments. In instances where the bad debt is owed by a person determined to have made a disqualifying transfer or assignment of property for the purpose of securing eligibility for medical assistance benefits, the facility shall document that it has made all reasonable efforts to secure payment from the transferee, including the bringing of an action for a transfer in fraud of creditors.
 - c. The collection fee does not exceed the amount of the bad debt.
 - d. The bad debt does not result from the facility's failure to comply with federal and state laws, state rules, and federal regulations.
 - e. The bad debt does not result from nonpayment of a private room rate in excess of the established rate, charges for special services not included in the established rate, or charges for bed hold days not billable to the medical assistance program.
 - f. The facility has an aggressive policy of avoiding bad debt expense which will limit potential bad debts. The facility must document that they have taken action to limit bad debts for individuals who refuse to make payment. In no instances may allowable bad debt expense exceed 120 days of resident care for any one individual.
2. Finance charges on bad debts which are allowed in subsection 1 are allowable if the finance charges have been offset as interest income in prior years.

Section 18 - Depreciation

1. Ratesetting principles require that payment for services should include depreciation on all depreciable type assets that are used to provide necessary services.
 - a. Capital assets that may have been fully or partially depreciated on the books of the provider, but are in use at the time the provider enters the program, may be depreciated. The useful lives of such assets are considered not to have ended and depreciation calculated on the revised extended useful life is allowable. To properly provide for costs or the valuation of such assets, an appraisal is required if the provider has no historical cost records or has incomplete records of the capital assets.
 - b. A depreciation allowance is permitted on assets that are used in a normal standby or emergency capacity.
 - c. If any depreciated personal property asset is sold or disposed of for an amount different than its undepreciated value, the difference represents an incorrect allocation of the cost of the asset to the facility and must be included as a gain or loss on the cost report. The facility shall use the sale price in computing the gain or loss on the disposition of assets.
2. Depreciation methods.
 - a. The straight-line method of depreciation must be used. All accelerated methods of depreciation, including depreciation options made available for income tax purposes, such as those offered under the asset depreciation range system, are unacceptable. The method and procedure for computing depreciation must be applied on a basis consistent from year to year and detailed schedules of individual assets shall be maintained. If the books of account reflect depreciation different than that submitted on the cost report, a reconciliation must be prepared by the facility.
 - b. Except as provided in subdivision c, a provider shall apply the same methodology for determining the useful lives of all assets purchased after June 30, 1995. If a composite useful life methodology is chosen, the provider may not thereafter use the depreciation guidelines without the department's written approval. The provider shall use, at a minimum, the depreciation guidelines to determine the useful life of buildings and land improvements. The provider may use:
 - (1) a composite useful life of ten years for all equipment except automobiles and five years for automobiles; or

- (2) The useful lives for all equipment identified in the depreciation guidelines and a useful life of ten years for all equipment not identified in the depreciation guidelines.
- c. A provider acquiring assets as an ongoing operation shall use as a basis for determining depreciation:
 - (1) The estimated remaining life, as determined by a qualified appraiser, for land improvements, buildings, and fixed equipment; and
 - (2) A composite remaining useful life for movable equipment, determined from the seller's records.
- 3. Acquisitions.
 - a. If a depreciable asset or special assessment has, at the time of its acquisition, historical cost of at least one thousand dollars for each item, its cost must be capitalized and depreciated over the estimated useful life of the asset. Cost during the construction of an asset, such as architectural, consulting and legal fees, interest, etc., must be capitalized as a part of the cost of the asset.
 - b. All repair or maintenance costs in excess of five thousand dollars per project on equipment or buildings must be capitalized and depreciated over the remaining useful life of the equipment or building repaired or maintained, or one-half of the original estimated useful life, whichever is greater.
- 4. Proper records will provide accountability for the fixed assets and also provide adequate means by which depreciation can be computed and established as an allowable resident-related cost. Tagging of major equipment items is not mandatory, but alternate records must exist to satisfy audit verification of the existence and location of the assets.
- 5. Donated assets, excluding assets acquired as an ongoing operation, may be recorded and depreciated based on their fair market value. In the case where the provider's records do not contain the fair market value of the donated asset, as of the date of the donation, an appraisal must be made. The appraisal will be made by a recognized appraisal expert and will be accepted for depreciation purposes. The useful life of a donated asset must be determined in accordance with subsection 2. The facility may elect to forego depreciation on donated assets thereby negating the need for a fair market value determination.
- 6. Basis for depreciation of assets purchased as an ongoing operation.
 - a. Determination of the cost basis of a facility and its depreciable assets acquired as an ongoing operation depends on whether or not the transaction is a bona fide sale. Should the issue arise, the